

Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 30545 291901Z

50

ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-14 NEA-10 NSAE-00 RSC-01

OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01

DRC-01 SCEM-02 SCI-06 XMB-07 STR-08 /156 W

----- 116689

R 291046Z NOV 73

FM USMISSION OECD PARIS

TO SECSTATE WASHDC 1257

INFO AMEMBASSY ROME

LIMITED OFFICIAL USE OECD PARIS 30545

E.O. 11652: N/A

TAGS: ECON, OECD

SUBJECT: EDRC ANNUAL REVIEW OF ITALY

REF: (A) EDR (73)22

(B) OECD 29718

1. SUMMARY. EDRC REVIEW ITAL NOV 21 WAS MOST PRODUCTIVE IN SEVERAL YEARS, THANKS TO WELL-INFORMED DELEGATION FROM ROME. ITALIANS AGREED IN GENERAL WITH SECRETARIAT FINDINGS, ALTHOUGH THEY PREDICTED LARGE DEFICIT BALANCE OF PAYMENTS BECAUSE OF INADEQUATE EXPORT PERFORMANCE. NO ATTEMPT YET MADE TO FACTOR IN EFFECTS OF OIL PRICE RISES AND SUPPLY SHORTAGES ON BP AND DOMESTIC PRODUCTIO. MONETARY POLICY IS GREATEST DILEMMA SINCE ENCOURAGEMENT ECONOMIC RECOVERY CONFLICTS WITH NEED CONTROL INFLATION. END SUMMARY.

2. DOMESTIC DEMAND. SECRETARIAT (ANDERSEN) SAW POSSIBILITY THAT DOMESTIC DEMAND AND INFLATIONARY PRESSURE WILL BE EVEN GREATER THAN FORESEEN BY EITHER SECRETARIAT OR ITALIANS, BECAUSE OF ADED STIMULUS RECENT WAGE SETTLEMENTS, RISING
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 30545 291901Z

PENSIONS, AND POSSIBLE DECLINE IN SAVINGS RATIOS RELATED

TO GROWING CONFIDENCE IN FUTURE EMPLOYMENT PROSPECTS. ITALIANS CONSIDERED RISK RISING HOUSEHOLD INCOMES LESS SERIOUS BECAUSE WAGE-EARNERS ONLY GROUP OF INCOME EARNERS WHICH HAD IMPROVED THEIR POSITION. ITALIANS DID NOT ANTICIPATE LARGE REDUCTION IN SAVINGS RATIO SINCE INFLATIONARY EXPECTATIONS DID NOT NECESSARILY LEAD TO DECLINE IN SAVINGS.

3. ANY INCREASE IN PRODUCTIVE CAPACITY TO MEET GROWING DOMESTIC AND FOREIGN DEMAND WILL DEPEND ON BUSINESS EXPECTATION, AND GOVERNMENT PLANS NO INVESTMENT INCENTIVES. ITALIANS SAID CAPACITY UTILIZATION WAS ONLY 78 PERCENT IN THIRD QUARTER, BUT IRON AND STEEL, TEXTILES, AND WOOD WERE AT HIGHER LEVELS, AND THERE WAS POSSIBILITY BOTTLENECKS IN ELECTRICITY PRODUCTION. ITALIANS HOPED INDUSTRIAL PRODUCTION CAPACITY WOULD GROW AT 7 PERCENT IN 1974, BUT ARE NOT PLANNING TAKE SPECIAL MEASURES ACHIEVE THIS.

4. PRICES AND COSTS. ALL MEMBERS AND SECRETARIAT SAW INFLATION AS MAJOR PROBLEM, BUT THEY DISAGREED ON HOW TO CONTROL IT WITHOUT DANGERING ECONOMIC RECOVERY. ITALIANS ANTICIPATED GRADUAL RELAXATION PRICE CONTROLS EARLY 1974 IN RESPONSE PENT-UP PRESSURES. NOT COUNTING IMPACT HIGHER OIL PRICES, DOMESTIC CPI EXPECTED RISE 9 PERCENT IN 1974 AND IMPORT PRICES 10 PERCENT. WAGES EXPECTED RISE 15 PERCENT AS RESULT 1973 AGREEMENTS, AND ITALIANS EXPECTED VARIOUS SECTORS WOULD TRY RE-ESTABLISH TRADITIONAL WAGE DIFFERENTIALS. HOWEVER, THEY DO NOT SEE PROFIT MARGINS INCREASING MORE THAN WAGES.

5. MONETARY AND FISCAL POLICY. SECRETARIAT MADE CLEAR ITS PREFERENCE FOR CONTINUED EMPHASIS ON ECONOMIC GROWTH DESPITE HIGH INFLATION RATE. IN THEIR VIEW THIS MEANT ABSOLUTE PRIORITY BE GIVEN TO PRODUCTIVE INVESTMENT AND TO PUBLIC INVESTMENT IN RELATED INFRASTRUCTURE. IF RESTRAINT NECESSARY, IT SHOULD INVOLVE FISCAL RATHER THAN MONETARY MEASURES. IN PARTICULAR, QUANTITATIVE RESTRICTIONS ON CREDIT SHOULD BE RELAXED BEFORE THEY DISCOURAGE INVESTMENT. ITALIANS NOTED RESTRICTIONS ON CREDIT HAD LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 30545 291901Z

ALREADY BEEN EASED AND GENERAL TONE THEIR POLICIES WAS FLEXIBLE AND SELECTIVE. THEY WERE IN COMPLETE AGREEMENT WITH SECRETARIAT CONCLUSIONS. US DELEGATE RAISED LONE VOICE IN WILDERNESS TO NOTE SURPRISE THAT EDRC SHOULD RECOMMEND RELAXATION OF CREDIT POLICY WHEN INFLATION RATE AT 10 PERCENT. HE NOTED HIGHLY LIQUID STATE OF ECONOMY COMBINED WITH RISK OF EVEN GREATER DEMAND PRESSURES WOULD SEEM REQUIRE TIGHTENING SHORT-TERM CREDIT. FAILURE DO THIS COULD MAKE WAGE SITUATION

IN 1974 EVEN MORE EXPLOSIVE.

6. BUDGET POLICY. ITALIAN ASSURED JAPANESE EXAMINER THEY HAD NO INTENTION APPLYING FISCAL RESTRAINT TO PUBLIC INVESTMENT PROGRAM. PRESENT DECENTRALIZATION OF AUTHORITY TO REGIONS HAD SLOWED DOWN PROJECT IMPLEMENTATION BUT THIS WOULD SOON BE RESOLVED. SELECTIVE TAX INCREASES, AS RECOMMENDED BY SECRETARIAT, MIGHT HELP RESOLVE BUDGETARY SHORTFALLS AND PROVIDE MEASURE OF DEMAND RESTRAINT, BUT ITALIANS DID NOT THINK THEY WOULD BE FEASIBLE IN 1974. RECENT FISCAL REFORM HAD YET TO PROVE ITS EFFICACY IN VIEW OF PAST EXPERIENCE WITH WIDESPREAD TAX EVASION.

7. BALANCE OF PAYMENTS. BOTH SECRETARIAT AND ITALIANS MODIFIED THEIR WIDELY DIFFERING ESTIMATES OF SIZE OF CURRENT ACCOUNT DEFICIT, BUT ITALIANS CONTINUE TO SEE LARGER DEFICIT THAN SECRETARIAT. ITALIANS SEE NUMEROUS UNCERTAINTIES AFFECTING EXPORT POTENTIAL, AMONG THEM EXPORT PRODUCTION CAPACITY, DELAYED EFFECTS OF DEVALUATION, INABILITY RECLAIM MARKETS LOST DUE PREVIOUS LAC COMPETITIVENESS. THEY EXPECTED IN 1974 EXPORTS RISE BY 21 PERCENT IN VALUE AND IMPORTS 20 PERCENT, EXCLUDING OIL EFFECTS. OIL PRICE RISES COULD ADD DOLS 500 MILLION TO IMPORT BILL, WHILE OIL SUPPLY CUTBACKS COULD HAVE SERIOUS EFFECT ON TOURIST EARNINGS. ITALIANS NOTED CONTROLS ON CAPITAL FLOWS, COMBINED WITH FOREIGN BORROWING TO MAINTAIN RESERVES, HAVE SUCCEEDED IN PREVENTING FURTHER DETERIORATION LIRA.

8. EDRC DECIDED NOT TO MAKE SPECIAL REPORT TO COUNCIL ON INFLATIONARY SITUATION IN ITALY.
BROWN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973OECDP30545
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t1973115/aaaaadmz.tel
Line Count: 146
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: (A) EDR (73)22
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 22 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22-Aug-2001 by izenbei0>; APPROVED <26-Nov-2001 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EDRC ANNUAL REVIEW OF ITALY
TAGS: ECON, IT, OECD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005